
Iowa Legislative Services Agency Fiscal Services

Dennis Prouty
(515) 281-5279
FAX 281-8027



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Road Use Tax Fund Revenue Update

ISSUE

This *Issue Review* provides background information on the Road Use Tax Fund and the programs funded.

AFFECTED AGENCIES

Department of Transportation (DOT)
Local governments

CODE AUTHORITY

Sections 307A.2(12), 312.2, 312.3, 313.4, 321.190(1)(d), Code of Iowa

BACKGROUND

In FY 2006, \$1.101 billion was collected and distributed through the Road Use Tax Fund, which was primarily used for construction and highway maintenance. The major revenue sources for the Fund include:

- Taxes on fuels
- Fees collected on vehicle registrations, titles, and driver's licenses
- Use tax collected on motor vehicle purchases
- Underground storage tank fees
- Motor carrier fines
- Interest income

Under Section 8, Article VII, Iowa Constitution, except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are mandated to be spent for the construction, maintenance, and supervision of the State's public highways. The use tax on motor vehicles and equipment, however, is exempt from the constitutional mandate.

ROAD USE TAX FUND – FY 2006**Revenues**

Table 1 below illustrates actual FY 2006 Road Use Tax Fund revenues. Before revenues from the motor vehicle use tax are deposited into the Fund, various programs and projects are funded from the use tax, which are also shown in **Table 1**. In FY 2006, 39.2% of revenues were derived from motor vehicle fuel taxes, 35.4% from registration and title fees, 20.0% from net use tax on motor vehicle sales, and 5.4% from other sources.

Table 1
Road Use Tax Fund Receipts
(Dollars in Millions)

	Actual FY 2006
Motor Vehicle Use Tax	\$ 265.65
Commercial and Industrial Network	-27.11
Underground Storage Tank Loan	-17.00
Dept. of Inspection & Appeals	-1.48
Net Use Tax	<u>\$ 220.06</u>
Motor Vehicle Fuel Tax	\$ 431.13
Registration/Title Fees & Misc.	390.23
Underground Tank Fees	21.31
Driver's License Fees	11.40
Interest	10.00
Other*	16.96
Total Receipts	<u><u>\$ 1,101.09</u></u>

* Includes motor carrier fines, waste tire management fees, and miscellaneous items.

Appropriations

A portion of the Road Use Tax Fund revenue is appropriated either through standing appropriations established in the Code of Iowa, or through the annual appropriations process. These "off-the-top" allocations are used to fund various programs, equipment purchases, facility improvements, and departmental operations. **Table 2** illustrates actual FY 2006 allocations and appropriations, and the amount of revenue available for distribution after the appropriations are made.

Table 2
Road Use Tax Fund
Off-the-Top Allocations and Appropriations
(Dollars in Millions)

	Actual
	FY 2006
Total Receipts	\$ 1,101.09
<u>Statutory Allocations</u>	
1. Primary (to Primary Rd. Fd.)	\$ 11.50
2. Farm-to-Market (to Farm-to-Market Rd. Fd.)	1.50
3. Secondary (to Secondary Rd. Fd.)	10.26
4. Revitalize Iowa's Sound Economy (RISE)	
State (to Primary Rd. Fd.)	22.79
City	11.40
County	1.14
5. Park & Institutional Roads (to Primary Rd. Fd.)	7.09
6. Secondary & Urban (to Primary Rd. Fd.)	0.50
7. Living Roadway	0.25
8. Railroad Crossing Surface Repair Fund	0.90
9. Railroad Crossing Safety Fund	0.70
10. Secondary Bridge	2.00
11. City Bridge	0.50
12. License Plate Production	4.55
13. Traffic Safety Projects	5.45
14. Driver's License Suspension Service	0.23
15. Public Transit (Use Tax)	10.84
16. Motorcycle Education Fund (Use Tax)	0.19
17. County Treasurer's Equipment (Reg. & Licenses)	1.09
18. Fuel Tax Refunds	0.34
Total Statutory Allocations	\$ 93.22
<u>Appropriations</u>	
19. DOT Operating Appropriation	\$ 38.87
20. Driver's License System Rewrite	3.00
21. Mississippi River Parkway Commission	0.04
22. Driver's License Lease Costs	2.94
23. County Treasurer Support (Dr. License Issuance)	1.23
24. Weather Information System	0.10
25. North Am. Superhighway Coalition	0.05
26. Dept. of Management Support Staff	0.06
27. DAS Utility Services	0.11
28. DAS 1/3 Expenses (Treasurer of State)	0.01
Total Appropriations	\$ 46.41
Total Off-the-Top Allocations	\$ 139.63
Total Available for Distribution	\$ 961.46
(Receipts Less Off-the-Top Allocations)	

Distribution

After the off-the-top allocations and appropriations are funded, the remaining revenues in the Fund are distributed based on formulas to the Primary, Secondary, Farm-to-Market, and Municipal Road Funds as follows: 47.5% to Primary, 24.5% to Secondary, 20.0% to Municipal, and 8.0% to Farm-to-Market.

Table 3 illustrates the distribution of the net Road Use Tax Fund revenue available through the formula to the four road funds.

Table 3
Road Use Tax Fund
Distribution Summary
(Dollars in Millions)

	Actual FY 2006
Primary Road Fund (47.5%)	\$ 456.69
Secondary Road Fund (24.5%)	235.56
Farm-To-Market Road Fund (8.0%)	76.92
Municipal Road Fund (20.0%)	192.29
Total Formula Allocation	\$ 961.46

The allocations shown in **Table 2** that were attributed to a particular road fund are in addition to the formula allocation amounts for each respective fund listed in **Table 3**. In FY 2006, of the total revenue deposited into the Road Use Tax Fund, 41.5% was deposited into the Primary Road Fund, 21.4% into the Secondary Road Fund, 7.0% into the Farm-to-Market Road Fund, 17.4% into the Municipal Road Fund, and 12.7% was distributed as allocations and appropriations for other individual programs and projects. **Attachment A** provides a flowchart that summarizes actual FY 2006 Road Use Tax Fund revenue and allocations.

Transfer of Jurisdiction Fund

Effective in FY 2004, jurisdiction and control of approximately 700 miles of State primary roads classified as Local Service Roads were transferred to cities and counties. As a result, a portion of the State's share of the Primary Road Fund is transferred monthly to the cities and counties that maintain these roads. From FY 2004 through FY 2013, following the 47.5% Road Use Tax Fund allocation to the Primary Road Fund, 1.75% of Primary Road Fund moneys are to be credited to a Transfer of Jurisdiction Fund. The funds are then transferred to cities and counties as follows:

- 75.0% to cities and counties that assume jurisdiction of primary roads:
 - 89.56% to the Secondary Road Fund of counties.
 - 10.44% to the Municipal Road Fund of cities.
- 22.5% to the Secondary Road Fund of all counties.
- 2.5% to the Municipal Road Fund of all cities.

In FY 2014 and beyond, the Transfer of Jurisdiction Fund will be eliminated, and the 1.75% of Primary Road Fund moneys will be distributed to cities and counties as follows:

- 1.575% to the Secondary Road Fund of all counties.

- 0.175% to the Municipal Road Fund of all cities.

Table 4 illustrates the distribution of the Transfer of Jurisdiction Fund to cities and counties that assumed jurisdiction of primary roads.

Table 4
Transfer of Jurisdiction Fund
Formula Allocation
(Dollars in Millions)

	Actual FY 2006
Transfer of Juris. Fund (1.75% of Primary Road Fund)	\$ 7.99
<u>Distribution of Transfer of Juris. Fund</u>	
Cities and counties that assume jurisdiction of primary roads (75.0%)	
Secondary Road Fund of counties (89.56%)	\$ 5.37
Municipal Road Fund of cities (10.44%)	0.62
Secondary Road Fund of all counties (22.5%)	1.80
Municipal Road Fund of all cities (2.5%)	0.20
Total Distribution	\$ 7.99

Effective in FY 2005, jurisdiction and control of approximately 400 miles of Farm-to-Market road extensions in cities with a population of less than 500 were transferred to the respective counties (not included in **Table 4**). As a result, a portion of the Municipal Road Fund from those cities is transferred monthly to the Secondary Road Fund of the respective counties. The total amount transferred is an estimated \$2.1 million annually. **Attachment B** provides a flow chart detailing the distribution of the Transfer of Jurisdiction Fund.

FIVE-YEAR FORECAST

The DOT is required to submit an annual report detailing how the Department proposes to improve the State's transportation system over the next five years. The five-year plan is based on projected State and federal revenues, and the associated costs of each project. In determining projected revenues, the Department develops a five-year forecast based on the most recent fiscal year data. The forecast is subject to change based on shifts in revenue, inflation, and State or federal legislative action.

In comparing actual versus estimated revenues, the actual receipts for FY 2006 were \$8.7 million (0.8%) higher than the forecast for FY 2006. For FY 2007, the Department is forecasting a decrease in revenues to the Fund of an estimated \$700,000 (0.07%) compared to FY 2006. If revenues decrease as predicted, it will only be the second time in 26 years. The last decrease occurred in FY 2001 when revenues to the Fund decreased \$167,000 (0.01%).

The forecasted revenue decrease for FY 2007 is due to anticipated changes in the highest revenue categories: motor vehicle fuel tax revenues and registration and title fees are predicted to increase only modestly (\$6.4 million (1.5%) and \$3.6 million (0.9%), respectively), while net use tax receipts are predicted to decrease \$4.2 million (1.9%). In addition, driver's license fees are anticipated to decrease \$6.4 million (56.2%) in FY 2007. Although driver's license fees make up only a small

portion of revenue to the Road Use Tax Fund, the decrease is significant considering the net effect of the other revenue categories.

The significant decrease in driver's license fees can be attributed to legislation enacted in 2002. Senate File 2192 (FY 2003 Transportation Omnibus Act) changed the maximum length of time that a driver's license may be issued from two or four years to five years. As a result, there will be significantly fewer licenses renewed in FY 2007. Driver's license fees are anticipated to increase in future years, but will continue to fluctuate somewhat based on the normal issuance cycle.

From FY 2007 through FY 2011, the DOT estimates that overall Road Use Tax Fund revenues will increase by a total of \$38.7 million (3.5%). In terms of specific revenues, the Department is projecting zero growth in net use tax receipts for FY 2008 through FY 2011, zero growth in fuel tax receipts for FY 2009 through FY 2011, and modest growth in other revenues. Revenue from registration and title fees is projected to increase each year.

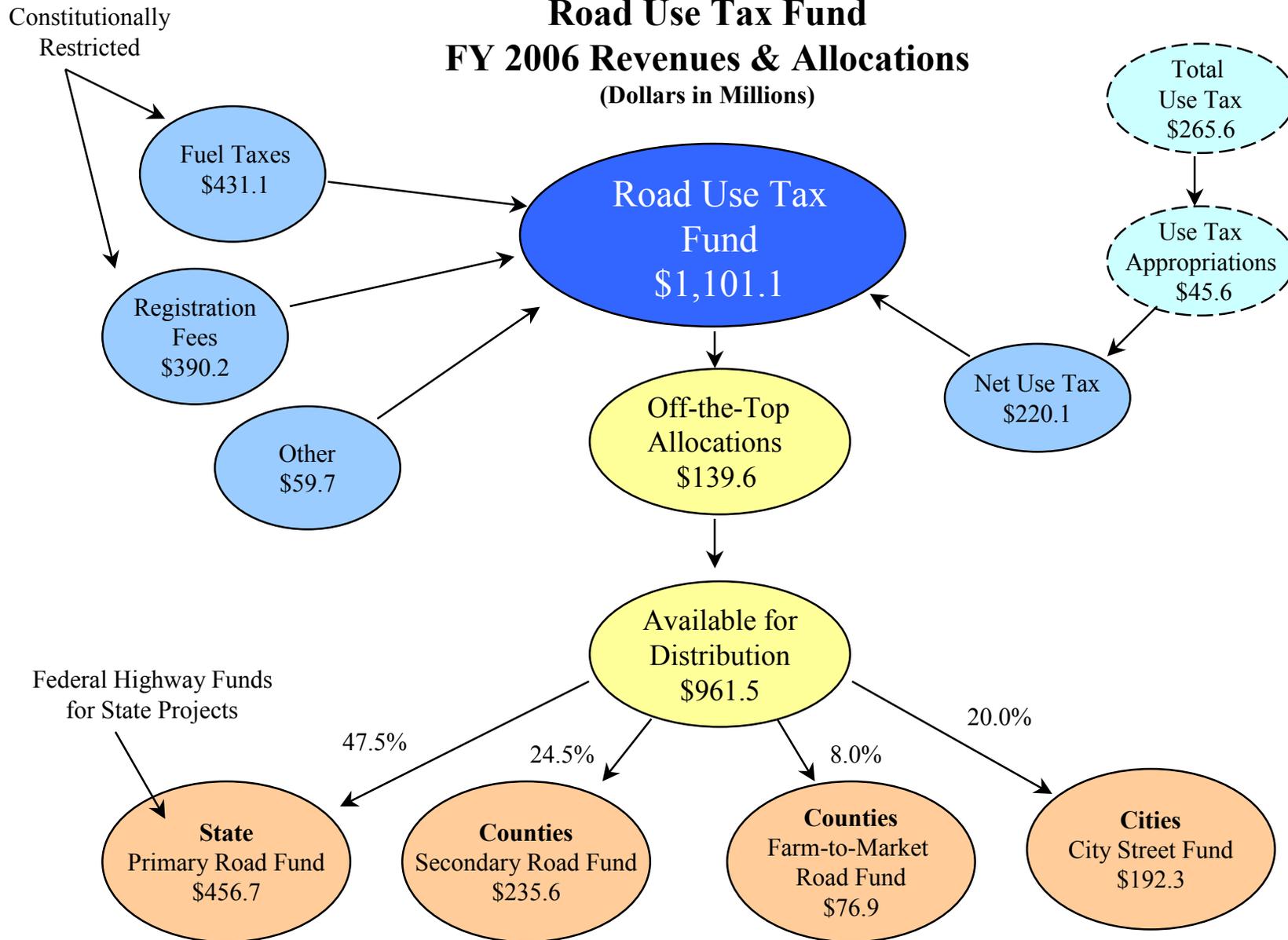
Table 5 below shows the DOT's five-year forecast for Road Use Tax Fund revenues for FY 2007 through FY 2011.

Table 5
Road Use Tax Fund Receipts
Five-Year Forecast
(Dollars in Millions)

	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Motor Vehicle Use Tax	\$ 260.24	\$ 257.83	\$ 257.83	\$ 257.83	\$ 257.83
Commercial and Industrial Network	-25.90	-25.64	-25.64	-25.64	-25.64
Underground Storage Tank Loan	-17.00	-17.00	-17.00	-17.00	-17.00
Dept. of Inspection & Appeals	-1.48	-1.48	-1.48	-1.48	-1.48
Net Use Tax	<u>\$ 215.86</u>	<u>\$ 213.71</u>	<u>\$ 213.71</u>	<u>\$ 213.71</u>	<u>\$ 213.71</u>
Motor Vehicle Fuel Tax	\$ 437.57	\$ 447.75	\$ 450.00	\$ 450.00	\$ 450.00
Registration/Title Fees & Misc.	393.85	399.49	405.75	409.87	415.74
Underground Tank Fees	21.52	21.52	21.52	21.52	21.52
Driver's License Fees	4.99	11.89	16.99	12.74	9.28
Interest	11.00	11.55	11.55	11.55	11.55
Other	15.58	16.74	16.90	17.07	17.24
TOTAL RECEIPTS	<u><u>\$ 1,100.37</u></u>	<u><u>\$ 1,122.65</u></u>	<u><u>\$ 1,136.42</u></u>	<u><u>\$ 1,136.46</u></u>	<u><u>\$ 1,139.04</u></u>

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

Road Use Tax Fund
FY 2006 Revenues & Allocations
 (Dollars in Millions)



**Transfer of Jurisdiction Fund
FY 2006 Allocations
(Dollars in Millions)**

